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Commodity Bubble Pricked

COMMODITIES AND GOLD

The speculative rise in world commodity prices came to an abrupt end this week with a major shakeout on the London metals, cocoa and coffee markets. According to the London *Financial Times*, the dramatic price slide of March 30 was sparked by "speculators scrambling to get out, either to take profits after the recent upsurge or to avoid heavy losses on purchases made at higher levels." Although metals prices recovered somewhat on March 31, cash tin prices are still nearly £1,000 below their peak of three weeks ago and cash lead prices are about £70 below their early-March peak. Authoritative commodity market sources are viewing this week's developments as no mere temporary shakeout but as indicative of a long-term trend.

There are a complex of factors responsible for this "letting out of hot air" on the London markets. The immediate trigger for this week's slide was the sudden upward lurch in short-term Eurodollar interest rates — reflecting the usual end-of-quarter "book-balancing" — which wiped out the easy money which had previously been available for commodity speculation. The market's exaggerated response to what would ordinarily be viewed as a merely temporary, tight-credit condition demonstrates the underlying extreme nervousness among investors. In particular, the reality that world industrial activity still remains very sluggish has once again impinged upon the speculative mentality.

The market has simultaneously been undermined by last week's refusal of Western European governments to agree to any more than a watered-down version of the U.S.-backed UNCTAD "Common Fund" proposal which would have provided multi-billion dollar financing of commodity buffer stocks — a scheme which has been universally dubbed a "bail-out" for U.S. international banks. Without the hope of such an artificial rigging of the markets, the commodity boom would most likely have petered out much earlier.

According to a high-level source at a leading London metals trading company, industrial demand for copper is still very low, and the market is so tenuous that only rumors of a U.S. copper strike might prop it up. Copper, in turn, is holding up the rest of the metals market. A U.S. copper market source admitted he was "terrified" by the threat of sudden deflation.

Ironically, gold — the "ultimate refuge" — has led the recent commodities shakeout which was set off by the short-term interest rate hike. Easy paper money had also fed the gold boom, the thriving gold futures market of the Chicago Mercantile Exchange being a prominent example. At the same time, House Banking Committee Chairman Congressman Henry Reuss' call for a resumption of U.S. Treasury gold auctions to drive down gold prices temporarily chilled investors. London gold prices dropped from a two-year high of over $153 last week to the $148-149 range this week. Growing Western European and Arab sentiment that gold should play an expanded role in a new monetary system, however, makes the metal an exception from the general commodities trend.

In the meantime, the fall-off in export earnings for Third World commodity producers aggravates the international liquidity squeeze, and threatens a further downward spiral in economic activity.

Why The New York Banks Are Finished

BANKING

Now that Western Europe, Japan, and prevailing opinion in the U.S. Congress are vehemently against David Rockefeller's demand for a $20 billion bailout scheme for the New York banks, the dollar international banking structure is on a fuse of weeks, perhaps days.

For the past year, the banks and their enforcer, the International Monetary Fund (IMF), have prevented the public collapse of $300 billion in debt of the world's poor countries through genocidal levels of austerity, and elaborate refinancing swindles. These cannot hold through the second quarter of 1977, *even if* the European, Arab, and other financial interests who hate David Rockefeller delay in setting off such a collapse intentionally.

The $50 billion figure that the press normally cites as the quantity of U.S. bank loans to the Third World is nonsense. The nation's highest banking regulatory official, the Controller of the Currency, admitted in Congressional testimony last week that his agency has no idea what banks' foreign operations are really like. In fact, the total volume of bank loans to the Third World is closer to $200 billion, and the American share more than half of that; the New York banks' loans to Third World borrowers who will never repay a penny is in the range of $100 billion, by banking community estimates. Most of

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